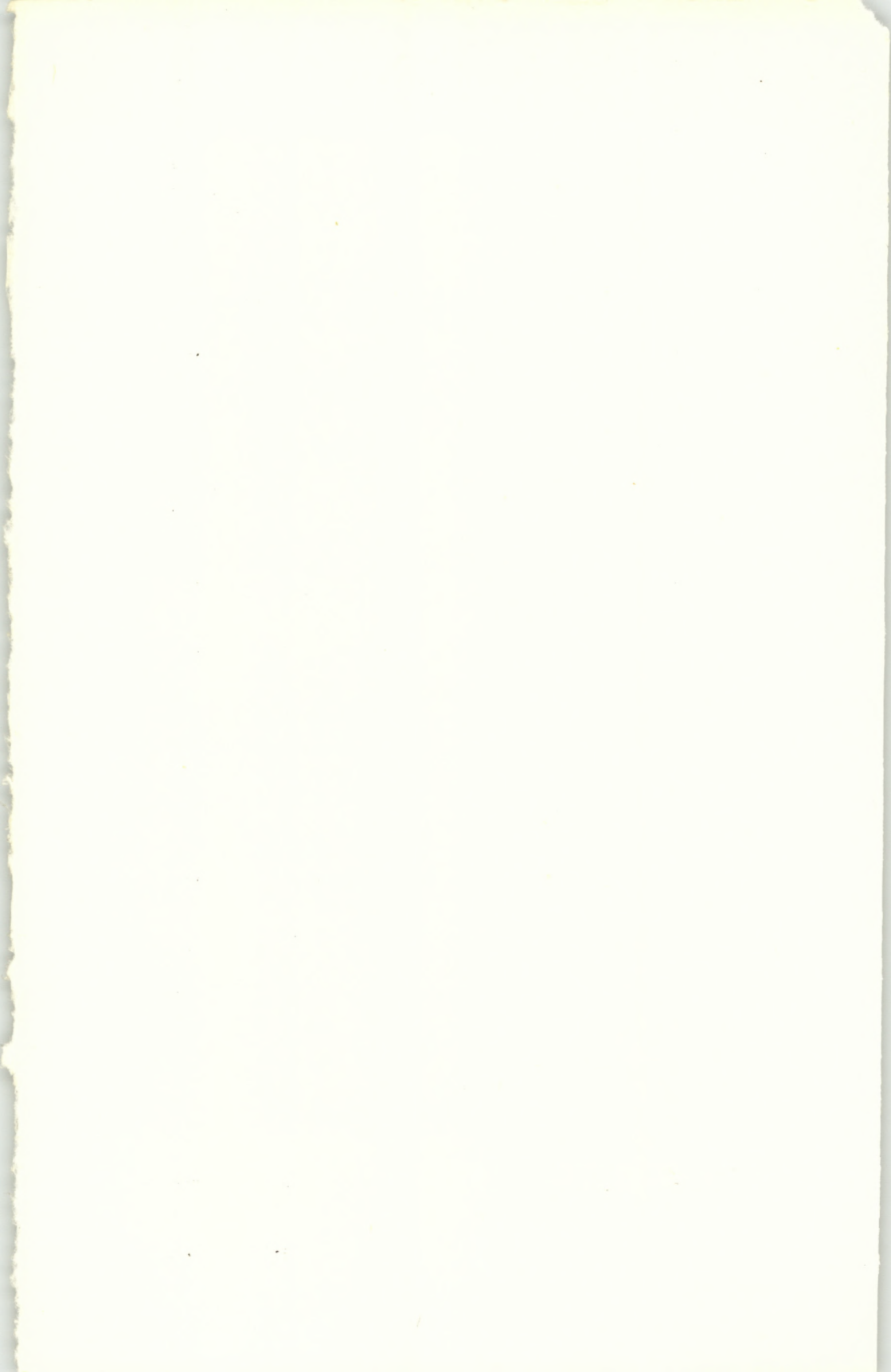


CLEVERLY
BUSINESS
CORPORATION FILE

HERSHEY

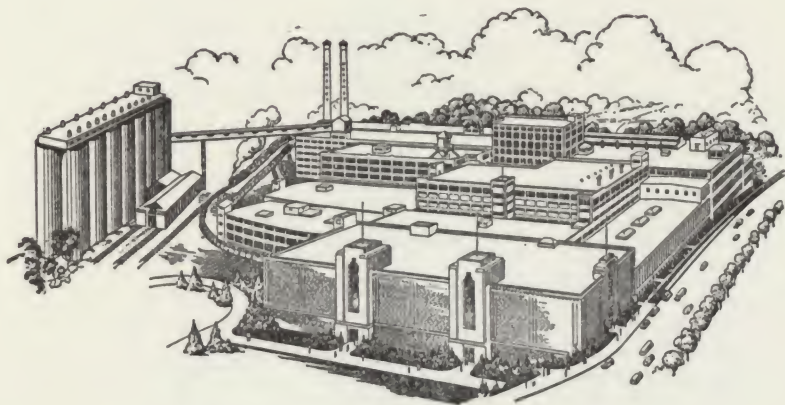
CHOCOLATE CORPORATION

ANNUAL REPORT
DECEMBER 31, 1955



HERSHEY CHOCOLATE CORPORATION

HERSHEY, PENNSYLVANIA



Executive Offices and Manufacturing Plant

BOARD OF DIRECTORS

P. A. STAPLES, <i>Chairman</i>	L. W. MAJER
J. J. GALLAGHER	W. H. RADEBAUGH
P. N. HERSHEY	W. E. SCHILLER
S. F. HINKLE	D. PAUL WITMER

OFFICERS

P. A. STAPLES, *President*
L. W. MAJER, *Secretary*
W. E. SCHILLER, *Treasurer and Comptroller*

TRANSFER AGENT

CITY BANK FARMERS TRUST COMPANY
NEW YORK

REGISTRAR

GUARANTY TRUST COMPANY
OF NEW YORK

AUDITORS

ARTHUR ANDERSEN & CO.
NEW YORK

*To the Stockholders of
Hershey Chocolate Corporation:*

It is a pleasure to submit this report on the progress of your Company during the year 1955, and to comment personally on some of the developments which I think may be of particular interest to you. The report includes the financial statements for the year and also the certificate of Arthur Andersen & Co., independent public accountants.

The statements reflect increased earnings as compared with 1954 and a strong financial position. As you may recall, 1954 earnings were lower due to extremely high cocoa bean costs. It should be noted that the earnings for 1955 are more in line with the results of the several prior years. Net profit for 1955 amounted to \$10,614,736 as compared with \$7,090,707 for the preceding year; equivalent to \$4.23 and \$2.75 per share of Common Stock in the respective years, after deducting dividends on Preferred Stock. The regular cash dividends of \$.50 quarterly were paid on the Common Stock in each year and an extra cash dividend of \$.75 was paid in December 1955, making a total of \$2.75 in 1955 as compared with \$2.00 in 1954. Dividends of \$2.12½ a share were paid on the Preferred Stock, and 10,150 shares of the Preferred were retired, pursuant to sinking fund requirements, at a cost of \$515,113.

The most significant factor in 1955 operations was the lower level of cocoa bean costs. This enabled us to make substantial price reductions in all lines and to increase the size of certain consumers' items, and was also the principal cause of the improved earnings. Sales in 1955 amounted to \$151,648,898, as compared with \$159,431,588 in the preceding year. The lower dollar sales in 1955 reflect price reductions made in that year on practically all lines. Furthermore, due to the change in world conditions of supply and demand for cocoa butter, it became uneconomical to produce and sell this item in quantity in 1955, and we were able to bring the manufacture of the Company's various other products into better balance with respect to the utilization of cocoa beans. Cocoa butter, which at times is actually a surplus product, frequently has to be sold in competition with cheaper imported cocoa butter.

On July 1, 1955, we made a general reduction in the selling prices of most of our lines, and further reductions in many lines were made subsequently, so that by the end of 1955 the prices of all of our products had been substantially reduced. In addition, we were able to offer greater values by increasing the sizes of certain items. This can be more readily appreciated if you con-

sider that a reduction of 6% in the selling price of one of our most popular lines, coupled with an increase of one-seventh in size, is the equivalent of a price reduction of approximately 18% for that line. I wish to state again, as I have in the past, that the Company has not used any substitutes in its products, but has strictly maintained its high quality standards, which has been its policy ever since the business was founded.

The procurement of cocoa beans has been the subject of considerable discussion in the annual reports of recent years. The decline in market price from the all-time high in 1954 to the current price level, which is less than one-half of the 1954 peak price, is generally considered to be the result of a moderate increase in world production of cocoa beans in the last crop year, coupled with a world-wide drop in consumption which is attributed to resistance to the high price level of 1954. The question most often asked concerns the probable future price of cocoa beans, but it is not feasible to predict the trend for an extended period as the price level depends upon the size of the crops and upon the pressure of the world demand. The research program of the American Cocoa Research Institute to encourage cocoa bean production in tropical countries is being followed aggressively. This Institute was organized for this purpose by the Association of Cocoa and Chocolate Manufacturers of the United States, which receives a substantial part of its support from contributions by your Company.

As you know, some of Hershey's most popular products are its almond bars. Although not used in such large quantities as cocoa beans, the almonds used in these items are important raw materials. Because of a world-wide crop shortage, the market price of almonds, including those of the California crop which is the Company's chief source of supply, has increased from approximately \$.60 to \$1.00 a pound. After a careful study of this whole subject it was deemed advisable to adopt the last-in, first-out, or "Lifo", method of computing almond costs, which is the method the Company uses for cocoa beans. In considering the operating results for 1955 it should be noted that the earnings were affected by this change. Compared with amounts which would have been reported under the method previously used, the effect of the change was to reduce income taxes \$1,418,554 and to lower net profit by \$1,222,000.

Working capital at the close of 1955 amounted to \$50,831,635 or \$2,973,481 more than at the end of 1954. Over 60% of the current assets consisted of inventories of raw materials, partly processed materials and finished goods ready for sale, which were almost the same in total amount as at the end of the preceding year. It is necessary to maintain sizable inventories, as well as

purchase commitments, to assure adequate supplies for operating needs.

The provision for Federal and Pennsylvania income taxes amounted to \$12,720,000, which is greater than the net profit for the year. The Company owned \$20,409,654 of United States Government short-term securities at December 31, 1955, of which amount \$11,855,231 has been applied on the accompanying balance sheet against the liability for Federal income taxes. Expenditures during the year for additions and improvements to the plant amounted to approximately \$1,200,000.

The Management recognizes the importance of the increasing emphasis upon research and development, both in industry at large, and in the food industry of which we are a part. The Company is participating in several cooperative research programs covering various phases of our business. In addition, we are increasing our research facilities and projects within our organization, and expect to continue the expansion.

Mr. William H. Radebaugh was elected to the Board of Directors, as an additional member of the Board, on February 8, 1956. Mr. Radebaugh is an attorney and is a member of the New York law firm of Dunnington, Bartholow & Miller. For a number of years he has handled, as special counsel, many legal matters for Hershey Chocolate Corporation.

I wish to take this opportunity to suggest to you, as a stockholder, and to your family and friends, the inclusion of a visit to Hershey and the chocolate plant, in which you have part ownership, at any time you are in our vicinity. I am taking the liberty of enclosing with this report to you a folder showing the places of interest in Hershey and the facilities for your enjoyment. Approximately 150,000 visitors went through the chocolate plant in 1955, and in addition many other hundreds of thousands enjoyed the hotel, rose garden, golf courses, park, etc., which are owned and operated by other Hershey interests. As you know, your Company owns and operates only the chocolate factory.

In closing I wish to express my grateful appreciation to all members of our organization for making 1955 another successful year.

Respectfully submitted,

P. A. STAPLES

February 23, 1956

President

HERSHEY CHOCOL

BALANCE SHEET

ASSETS

CURRENT ASSETS :

Cash	\$ 6,362,606	
United States Government short-term securities	8,554,423	\$14,917,029
Accounts receivable, less reserves of \$468,416		5,840,991
Inventories (cocoa beans and almonds at cost on last-in, first-out basis; remainder at lower of average cost or market) (Note 1)		34,462,204
Total current assets		<u>\$55,220,224</u>

PLANT AND PROPERTY, at cost:

Land	\$ 96,085	
Buildings and improvements	12,961,335	
Machinery and equipment	22,576,113	
Construction in progress	305,427	
	<u>\$35,938,960</u>	
Less—Reserves for depreciation	19,605,315	16,333,645

DEFERRED AND PREPAID ITEMS		184,327
		<u>\$71,738,196</u>

Reference is made to the accompa

ATE CORPORATION

DECEMBER 31, 1955

LIABILITIES

CURRENT LIABILITIES :

Accounts payable and accrued liabilities		\$ 3,157,744
Dividend payable February 15, 1956, on Series A cumulative preferred stock.....		117,986
Reserve for state taxes		1,112,859
Reserve for Federal income taxes.....	\$11,855,231	
Less—United States Government short- term securities	11,855,231	—
Total current liabilities		<u>\$ 4,388,589</u>

RESERVE FOR PAST SERVICE COST OF PENSIONS

465,129

CAPITAL STOCK AND SURPLUS:

Series A 4- $\frac{1}{4}$ % cumulative preferred stock, par value \$50 per share (Note 2) — Authorized 223,393 shares; outstanding 223,292 shares (including 1,200 shares in Treasury)	\$11,164,600	
Common Stock, without par value— Authorized 3,000,000 shares; outstanding 2,399,251 shares	4,200,716	
Earned surplus.....	51,579,162	
	<u>\$66,944,478</u>	
Deduct - Treasury Stock— 1,200 shares Series A cumulative preferred, at cost	60,000	66,884,478
		<u><u>\$71,738,196</u></u>

ying notes to financial statements.

HERSHEY CHOCOLATE CORPORATION

STATEMENTS OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1955

PROFIT AND LOSS

GROSS SALES, LESS DISCOUNTS, RETURNS AND ALLOWANCES		\$151,648,898
COST OF GOODS SOLD, SHIPPING, SELLING, ADMINISTRATIVE AND GENERAL EXPENSES (Notes 1 and 3)		<u>128,314,162</u>
		\$ 23,334,736
PROVISION FOR INCOME TAXES:		
Federal income tax	\$11,935,000	
Commonwealth of Pennsylvania income tax	<u>785,000</u>	12,720,000
Net profit for the year		<u><u>\$ 10,614,736</u></u>

EARNED SURPLUS

EARNED SURPLUS AT DECEMBER 31, 1954		\$ 48,041,935
ADD - Net profit for the year 1955		<u>10,614,736</u>
		\$ 58,656,671
DEDUCT:		
Dividends—		
On Series A 4- $\frac{1}{4}$ % cumulative preferred stock (\$2.12 $\frac{1}{2}$ per share)	\$ 471,956	
On Common stock (\$2.75 per share)	6,597,940	
Premium of \$.75 per share on sinking fund redemption of 10,150 shares of Series A preferred stock	<u>7,613</u>	7,077,509
EARNED SURPLUS AT DECEMBER 31, 1955		<u><u>\$ 51,579,162</u></u>

Reference is made to the accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

- (1) Effective as of January 1, 1955, the last-in, first-out method of computing the cost of almonds included in inventories was adopted with the result that inventories at December 31, 1955, and the net profit for the year then ended were less than would have been reported under the method previously used. Inventories at December 31, 1955, were reduced \$2,640,554 and the net profit for the year then ended was reduced \$1,222,000 after recognizing the income tax effect.
- (2) The preferred stock is redeemable by the Corporation. During 1956 the optional redemption price is \$52.00 per share and the sinking fund redemption price is \$50.75 per share. Upon voluntary liquidation such preferred stock is entitled to a preferential amount equal to its then applicable optional redemption price and, upon involuntary liquidation, to \$50.00 per share. Such prices and amounts are plus accrued dividends. Dividends on, or purchases of, common stock are (with certain exceptions) conditioned upon compliance with sinking fund provisions requiring the Corporation to have purchased or redeemed a cumulative average of 5,075 shares of the preferred stock per annum. The Corporation has met such sinking fund requirements through 1956.
- (3) Costs and expenses for the year 1955 include provision for depreciation of plant and equipment in the amount of \$1,328,451.

AUDITORS' CERTIFICATE

*To the Board of Directors and the Stockholders of
Hershey Chocolate Corporation:*

We have examined the balance sheet of Hershey Chocolate Corporation (a Delaware corporation) as of December 31, 1955, and the related statements of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 1 to the accompanying financial statements, the Corporation, effective as of January 1, 1955, adopted the last-in, first-out method of computing the cost of almonds included in inventories. We approve this change in method and are of the opinion that the financial statements are otherwise presented on a basis consistent with that of the preceding year.

In our opinion, the accompanying balance sheet and statements of profit and loss and earned surplus present fairly the financial position of Hershey Chocolate Corporation as of December 31, 1955, and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
February 8, 1956.

HERSHEY'S PRODUCTS

FOR THE CONSUMER

MILK CHOCOLATE BARS

ALMOND BARS

SEMI-SWEET BARS

KRACKEL BARS

MR. GOODBAR

MINIATURE BARS

HERSHEY-ETS

MILK CHOCOLATE KISSES

BAKING CHOCOLATE

DAINTIES

BREAKFAST COCOA

CHOCOLATE SYRUP

HOT CHOCOLATE POWDER

CHOCOLATE FUDGE TOPPING

FOR INDUSTRIAL USERS

(Confectionery, Baking, Ice Cream, and other Industries)

CHOCOLATE COATINGS

UNSWEETENED CHOCOLATE

COCOA BUTTER

COCOA POWDER

CHOCOLATE SYRUP

CHOCOLATE FUDGE

HERSHEY CHOCOLATE CORPORATION

EXECUTIVE OFFICES AND MANUFACTURING PLANT
HERSHEY, PENNSYLVANIA

WAREHOUSES

Atlanta, Ga.	Little Rock, Ark.
Billings, Mont.	Los Angeles, Cal.
Cambridge, Mass.	Milwaukee, Wis.
Chicago, Ill.	New Orleans, La.
Cincinnati, Ohio	New York, N. Y.
Dallas, Texas	Oklahoma City, Okla.
Davenport, Iowa	Omaha, Neb.
Denver, Colo.	Pittsburgh, Pa.
Detroit, Mich.	Portland, Ore.
East St. Louis, Ill.	St. Paul, Minn.
Houston, Texas	Salt Lake City, Utah
Jacksonville, Fla.	San Francisco, Cal.
Kansas City, Mo.	Seattle, Wash.

SALES OFFICES

In all principal cities in the United States





